

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02
INR-10 L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15
ICA-20 AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06
LAB-04 SIL-01 OMB-01 STR-07 CEA-01 /127 W
-----104561 130952Z /14

P 130924Z SEP 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 1179
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 01 OF 03 TOKYO 16536

USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - SEPT
7-13

1. SUMMARY: ECONOMIC PLANNING AGENCY (EPA) AND BANK OF JAPAN (BOJ) AGREE WEAKENING EXPORTS EXERTING A DRAG ON OTHERWISE GOOD DOMESTIC BUSINESS ACTIVITY. TAX SYSTEM COUNCIL KICKS OFF DEBATE ON POSSIBLE NEW GENERAL CONSUMPTION TAX. PLANS TO INTRODUCE CERTIFICATES OF DEPOSIT DELAYED IN FACE OF STRONG OPPOSITION BY LONG-TERM CREDIT BANKS AND SECURITIES FIRMS. TWO-YEAR GOVT BONDS TO BE ISSUED TO SMOOTH FUNDING SNAGS. NEW MACHINERY ORDERS UP STRONGLY IN JULY BUT CAR REGISTRATIONS DROP IN AUGUST.
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NEW HOUSING STARTS OFF IN JULY. BANKRUPTCIES RECEDE IN AUG WHILE WHOLESALE PRICES DIP 0.9 PCT IN THE MONTH. END SUMMARY.

2. IN ITS LATEST MONTHLY ECONOMIC REPORT, EPA EMPHASIZES THAT ALTHOUGH DOMESTIC BUSINESS HAS CONTINUED TO IMPROVE, SPREADING WEAKNESS IN EXPORT VOLUME HAS RESULTED IN A

LIMP PERFORMANCE OF INDUSTRIAL PRODUCTION IN RECENT MONTHS. THE REPORT NOTES THAT ON THE DOMESTIC SIDE A STRONG EXPANSION OF PUBLIC SPENDING NOW SHOWS SIGNS OF BEING REINFORCED BY AN IMPROVEMENT IN PRIVATE INVESTMENT STEMMING IN PART FROM IMPROVED CORPORATE PROFITABILITY. EPA ALSO VIEWS FAVORABLY THE IMPROVING TREND OF THE LAST THREE MONTHS IN THE NUMBER OF NEW JOB OFFERS. THE BOJ MONTHLY REPORT VIEWED THE SAME EVIDENCE IN THE SAME LIGHT.

3. THE TAX SYSTEM COUNCIL, A CONSULTATIVE BODY TO THE PRIME MINISTER, MADE PUBLIC SEPT 12 THE OUTLINES OF A PROPOSAL TO INTRODUCE A GENERAL CONSUMPTION TAX. THE PROPOSAL OUTLINES THE MECHANICS OF THE SUGGESTED NEW TAX BUT DOES NOT PROPOSE A SPECIFIC TAX RATE NOR MAKE ANY RECOMMENDATION AS TO WHEN THE TAX OUGHT TO BE INTRODUCED. EARLY PRESS ACCOUNTS INDICATE THE PROPOSED TAX WOULD APPROXIMATE A VALUE ADDED TAX. IN PRINCIPLE, THE PROPOSED TAX WOULD BE COMPREHENSIVE BUT SEVERAL ITEMS WOULD BE EXEMPTED, MOST NOTABLY FOOD. ALSO SMALL BUSINESS WOULD PROBABLY BE EXEMPTED. PREDICTABLY, THE PLAN HAS DRAWN QUICK AND MIXED REACTION FROM A VARIETY OF INTERESTS. RELEASE OF THE COUNCIL'S RECOMMENDATIONS APPEARS TO BE THE FIRST STAGE OF WHAT IS LIKELY TO BE A LONG AND LIVELY DEBATE OVER THE NEED FOR AND THE FORM OF ADDITIONAL TAXATION IN JAPAN.

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4. THE FINANCIAL SYSTEM RESEARCH COMMITTEE, AN ADVISORY BODY TO THE FINANCE MINISTER, SEPT 7 PULLED BACK FROM IMMEDIATE ADVOCACY OF THE INTRODUCTION OF CERTIFICATES OF DEPOSIT (CD). PRELIMINARY INDICATIONS HAD BEEN THAT THE COMMITTEE WOULD RECOMMEND BANKS BE GIVEN PERMISSION TO ISSUE CD'S AND A SUBCOMMITTEE AFTER SEVERAL MONTHS WORK, SUBMITTED A PROPOSAL TO THIS EFFECT AT A GENERAL MEETING OF THE COMMITTEE SEPT 7. THE FULL COMMITTEE, HOWEVER, IN THE FACE OF STRONG OPPOSITION FROM THE LONG-TERM CREDIT BANKS AND THE SECURITIES FIRMS, DECIDED TO SWITCH TACTICS AND DELAY A DECISION ON WHETHER OR NOT TO RECOMMEND ISSUANCE OF CD'S UNTIL A DETAILED PROPOSAL HAD BEEN WORKED UP ON EXACTLY HOW SUCH A SYSTEM WOULD OPERATE.

5. MINISTRY OF FINANCE PLANS TO INTRODUCE TWO-YEAR GOVT BONDS IN ADDITION TO THE EXISTING THREE, FIVE AND TEN-YEAR BONDS. IT IS EXPECTED THAT ABOUT YEN 300 BIL OF NEW TWO-YEAR BONDS WILL BE ISSUED THIS FISCAL YEAR. THE SHORTER MATURITIES ARE BEING OFFERED IN THE FACE OF BOND MARKET RESISTANCE TO THE LARGE VOLUME OF LONGER-TERM GOVT BONDS BEING OFFERED AT WHAT THE MARKET VIEWS AS UNATTRACTIVE YIELDS. COMMERCIAL BANKS HAVE BEEN OPPOSING STRONGLY THIS

PLAN SINCE THEY FEAR TWO-YEAR BONDS WILL BECOME A STRONG RIVAL TO BANKS' TIME DEPOSITS WITH SAME MATURITY. REFLECTING RECENT DIFFICULTIES IN SELLING GOJ BONDS AND STRONG OPPOSITION FROM COMMERCIAL BANKS, MOF INTENDS THIS TIME TO SELL ALL THE TWO-YEAR BONDS TO THE TRUST FUND BUREAU, THE MAJOR SOURCE OF FUNDS FOR FISCAL LOAN AND INVESTMENT PROGRAM, AND FINANCED PRIMARILY BY POSTAL SAVINGS.

6. NEW MACHINERY ORDERS, S.A., ROSE SHARPLY IN JULY PRIMARILY DUE TO ACCELERATED ORDER PLACEMENT BY THE PUBLIC

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P 130924Z SEP 78
FM AMEMBASSY TOKYO
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SECTOR. NEW MACHINERY ORDERS PLACED BY GOVT AND PUBLIC AGENCIES MORE THAN DOUBLED IN JULY (S.A.) WHILE PRIVATE NEW MACHINERY ORDERS ROSE 2.5 PCT ON TOP OF THE 6.9 PCT INCREASE IN THE PRIOR MONTH. DEMAND FOR NEW MACHINERY BY MANUFACTURING SECTOR DECLINED IN JULY, BUT WAS MORE THAN COMPENSATED BY STRONG ORDER PLACEMENT BY NON-MANUFACTURING SECTOR, PARTICULARLY ELECTRIC POWER COMPANIES.

NEW MACHINERY ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM

PRIOR MONTH IN PAREN):

- PRIVATE ORDERS EXCL. GOVT AND PUBLIC
- SHIPS (JEI 337) ORDERS (JEI 335)

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MAY 264.2 (MIN 1.7) 84.5 (MIN 26.2

JUNE 282.4 (6.9) 125.8 (48.8)

JULY 289.5 (2.5) 252.8 (100.9)

7. NEW CAR REGISTRATIONS, S.A., FELL SHARPLY IN AUG, BY 21 PCT FROM THE PRIOR MONTH'S LEVEL. ON YEAR-OVER-YEAR COMPARISON, HOWEVER, AUG NEW CAR SALES REMAINED ABOVE THE YEAR-EARLIER LEVEL, UP 12 PCT.

NEW CAR REGISTRATIONS, S.A.:

- THOUSAND CARS PCT CHANGE FROM
- PRIOR MONTH PRIOR YEAR

JUNE 263.2 10.2 20.9

JULY 252.1 - 4.2 21.0

AUG 198.3 - 21.3 12.0

8. NEW HOUSING STARTS EASED OFF IN JULY FOLLOWING A REBOUND IN THE FOURTH QUARTER OF LAST YEAR AND CONTINUED STRONG GROWTH THROUGHOUT THE FIRST QUARTER OF THIS YEAR. THEY HAD DECLINED SOMEWHAT IN THE SECOND QUARTER. IN JULY, THE LATEST MONTH FOR WHICH DATA ARE AVAILABLE, STARTS (S.A.) APPARENTLY RECOILED FROM THE PRIOR MONTH'S RAPID SPURT.

NEW HOUSING CONSTRUCTION STARTS (S.A.) (JEI N/A, NOTE; IN THOUSAND UNITS; PCT CHANGE FROM PRIOR PERIOD IN PAREN):

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RECENT MONTHS RECENT QUARTERS (MO AVERAGE):

APRIL 128.7 (-10.3) 1977:JAN-MAR 129.7 (2.8)

MAY 121.2 (-5.9) APR-JUN 124.7 (-3.8)

JUNE	153.5 (26.6)	JUL-SEP	121.9 (-2.3)
JULY	125.5 (-18.2)	OCT-DEC	127.7 (4.7)
-	1978:JAN-MAR	138.0 (8.1)	
-	APR-JUN	134.5 (-2.6)	

(NOTE: DATA ARE SEASONALLY ADJUSTED BY CONSTRUCTION MINISTRY, AND TEND TO DIFFER SOMEWHAT FROM EPA ADJUSTED DATA REPORTED IN JEI 321. EPA DATA ARE AVAILABLE ONLY WITH A SUBSTANTIAL LAG.)

9. BANKRUPTCIES, N.S.A., SUBSIDED FURTHER IN AUGUST. ACCORDING TO THE TWO PRIVATE RESEARCH ORGANIZATIONS WHICH COLLECT STATISTICS, BANKRUPTCY CASES, N.S.A., DECLINED NEARLY 3 PCT IN AUG FROM THE PRIOR MONTH'S LEVEL WHILE LIABILITIES OF BUSINESS FIRMS DECLARING BANKRUPTCIES DURING THE MONTH FELL BY MORE THAN 30 PCT TO AMOUNT TO \$700 MIL EQUIVALENT. ON YEAR-OVER-YEAR COMPARISON, THE NUMBER OF BANKRUPTCY CASES DECLARED IN AUG AND THEIR LIABILITIES WERE DOWN 18 PCT AND MORE THAN 50 PCT, RESPECTIVELY.

BANKRUPTCIES, N.S.A.:

-	NO. OF CASES	LIABILITIES INVOLVED
-	(BIL YEN)	

JUNE	1324-1325	161-164
JULY	1291-1292	200
AUG	1255-1256	131-136

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10. WHOLESALE PRICE INDEX, N.S.A., FELL 0.9 PCT IN AUG, RECORDING THE THIRD STRAIGHT MONTHLY DECLINE. WHOLESALE

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 1181

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

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PRICE INDEX OF MANUFACTURED GOODS ALSO DECLINED, THOUGH
LESS RAPIDLY, BY 0.7 PCT IN AUG. MANSFIELD

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Message Attributes

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